CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE

™

4TH DISTRICT AGRICULTURAL ASSOCIATION
SONOMA-MARIN FAIR
PETALUMA, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

AUDIT REPORT #09-004
FOR THE YEARS ENDED
DECEMBER 31, 2008 AND 2007

4TH DISTRICT AGRICULTURAL ASSOCIATION
SONOMA-MARIN FAIR
PETALUMA, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 2008 AND 2007

AUDIT STAFF

Ron Shackelford, CPA	Audit Chief
Shakil Anwar, CPA	Assistant Audit Chief
Patricia Moore	Auditor

AUDIT REPORT NUMBER

#09-004

4th DISTRICT AGRICULTURAL ASSOCIATION
SONOMA-MARIN FAIR
PETALUMA, CALIFORNIA

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Jeff James, President
Board of Directors
4th DAA, Sonoma-Marin Fair
175 Fairgrounds Drive
Petaluma, California 94952

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statements of financial condition of the 4th District Agricultural Association (DAA), Sonoma-Marin Fair, Petaluma, California, as of December 31, 2008 and 2007, and the related statements of operations and changes in accountability, and cash flows-regulatory basis for the years then ended. These financial statements are the responsibility of the 4th DAA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We have conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the 4th DAA, Sonoma-Marin Fair, as of December 31, 2008 and 2007, and the results of its operations and changes in accountability, and cash flows-regulatory basis for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The 4th DAA, Sonoma-Marin Fair has not presented the Management’s Discussion and Analysis, which the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Management Report #09-004, on the 4th DAA's compliance with State laws and regulations and system of internal accounting control, is issued solely for the purpose of additional analysis and should be addressed by the 4th DAA as appropriate. This additional report, however, is not a required part of the basic financial statements.

Ron Shackelford

Ron Shackelford, CPA
Chief, Audit Office

October 23, 2009

4TH DISTRICT AGRICULTURAL ASSOCIATION
SONOMA-MARIN FAIR
PETALUMA, CALIFORNIA

STATEMENTS OF FINANCIAL CONDITION
Years Ended December 31, 2008 and 2007

	Account Number	2008	2007
ASSETS			
Cash & Cash Equivalents	111-116	$ 1,169,253	$ 1,188,271
Accounts Receivable, Net	131	9,329	23,620
Inventory	141	7,857	-
Deferred Charges	143	14,579	15,203
Construction In-Progress	190	16,847	17,500
Buildings and Improvements, Net	192	1,461,867	1,563,767
Equipment, Net	193	37,180	41,791
TOTAL ASSETS		**2,716,912**	**2,850,151**
LIABILITIES AND NET RESOURCES			
Liabilities			
Accounts Payable	212	5,533	5,071
Current Portion of Long Term Debt	212.5	3,876	3,620
Payroll Liability	221-227	-	332
Deferred Income	228	61,531	40,495
Guaranteed Deposits	241	26,719	25,025
Compensated Absences Liability	245	26,246	20,258
Long Term Debt	255	9,397	13,274
Total Liabilities		**133,302**	**108,075**
Net Resources			
Net Resources - Operations	291	1,077,113	1,128,672
Net Resources - Capital Assets, less Related Debt	291.1	1,506,497	1,613,404
Total Net Resources Available		**2,583,610**	**2,742,076**
TOTAL LIABILITIES AND NET RESOURCES		**$ 2,716,912**	**$ 2,850,151**

4TH DISTRICT AGRICULTURAL ASSOCIATION
SONOMA-MARIN FAIR
PETALUMA, CALIFORNIA

STATEMENTS OF OPERATIONS/CHANGES IN ACCOUNTABILITY
Years Ended December 31, 2008 and 2007

	Account Number	2008	2007
REVENUE			
State Apportionments	312	$ 124,000	$ 124,000
Project Fund	317-319	15,797	78,025
Other	330-340	45,723	10,000
Admissions	410	435,771	467,572
Commercial Space	415	57,223	58,575
Carnival	421	3,945	4,845
Concessions	422	86,047	85,317
Exhibits	430	67,935	73,353
Attractions - Fairtime	460	108,335	115,915
Miscellaneous Fair	470	97,410	101,228
Non-Fair Revenue	480	622,172	585,618
Prior Year Adjustment	490	1,378	147
Other Revenue	495	46,637	64,875
Total Revenue		**1,712,373**	**1,769,470**
EXPENSES			
Administration	500	342,077	352,524
Maintenance and Operations	520	389,777	385,277
Publicity	540	116,124	109,210
Attendance	560	99,102	99,848
Miscellaneous Fair	570	65,203	61,130
Premiums	580	68,188	68,001
Exhibits	630	134,065	152,272
Entertainment - Fairtime and Non-Fair	660	475,778	484,739
Equipment	723	3,820	9,977
Prior Year Adjustments	800	3,767	(17,121)
Cash Over/Short	850	681	1,014
Depreciation Expense	900	126,534	129,543
Other Expenses	945	45,723	10,000
Total Expenses		**1,870,839**	**1,846,414**
RESOURCES			
Net Change - Income / (Loss)		(158,466)	(76,944)
Resources Available, January 1		2,742,076	2,819,020
Resources Available, December 31		**$ 2,583,610**	**$ 2,742,076**

4TH DISTRICT AGRICULTURAL ASSOCIATION
SONOMA-MARIN FAIR
PETALUMA, CALIFORNIA

STATEMENTS OF CASH FLOWS - REGULATORY BASIS
Years Ended December 31, 2008 and 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess of Revenue Over Expenses (Expenses Over Revenue)	$ (158,466)	$ (76,944)
Adjustment to Reconcile Excess of Revenue Over Expenses to Net Cash Provided by Operating Activities:		
(Increase) Decrease in Accounts Receivable	14,291	41,522
(Increase) Decrease in Inventory	(7,857)	-
(Increase) Decrease in Deferred Charges	624	(5,442)
Increase (Decrease) in Accounts Payable	462	(15,910)
Increase (Decrease) in Current Portion of Long Term Debt	256	(183)
Increase (Decrease) in Other Liabilities	(332)	(33)
Increase (Decrease) in Deferred Income	21,035	(45,826)
Increase (Decrease) in Guaranteed Deposits	1,694	(1,560)
Increase (Decrease) in Compensated Absences	5,988	(8,310)
Total Adjustments	36,161	(35,742)
Net Cash Provided (Used) by Operating Activities	**(122,305)**	**(112,686)**
CASH FLOWS FROM INVESTING ACTIVITIES:		
(Increase) Decrease in Construction In-Progress	653	95,794
(Increase) Decrease in Buildings & Improvements	101,900	(77,646)
(Increase) Decrease in Equipmen	4,611	12,928
Net Cash Provided (Used) by Investing Activities	**107,164**	**31,076**
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase (Decrease) in Long-Term Liability	(3,877)	11,863
Net Cash Provided (Used) by Financing Activities	**(3,877)**	**11,863**
NET INCREASE (DECREASE) IN CASH	**(19,018)**	**(69,747)**
Cash at Beginning of Year	1,188,271	1,258,018
CASH AT END OF YEAR	**$ 1,169,253**	**$ 1,188,271**

See accompanying independent auditor's report and notes to the financial statements.

4th DISTRICT AGRICULTURAL ASSOCIATION
SONOMA-MARIN FAIR
PETALUMA, CALIFORNIA

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008 and 2007

NOTE 1 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Organization - The 4th District Agricultural Association (DAA) was formed for the purpose of sponsoring, managing, and conducting the Sonoma-Marin Fair each year in Petaluma, California. The State of California, Department of Food and Agriculture, through the Division of Fairs and Expositions provides oversight responsibilities to the DAA. The DAA is subject to the policies, procedures, and regulations set forth in the California Government Code, California Business and Professions Code, Public Contracts Code, Food and Agricultural Code, State Administrative Manual, and the Accounting Procedures Manual established by the Division of Fairs and Expositions.

The State of California allocates funds annually to the DAAs to support operations and acquire fixed assets. However, the level of State funding varies from year to year based on budgetary constraints. The Division of Fairs and Expositions determines the amount of the allocations.

Basis of Accounting - The accounting policies applied to and procedures used by the DAA conform to accounting principles applicable to District Agricultural Associations as prescribed by the State Administrative Manual and the Accounting Procedures Manual. The DAA's activities are accounted for as an enterprise fund. The Governmental Accounting Standards Board (GASB) defines an enterprise fund as a fund related to an organization financed and operated in a manner similar to a private business enterprise where the intent is to recover the costs of providing goods or services to the general public primarily through user charges. Pursuant to GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Account, the DAA has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do no conflict with or contradict GASB pronouncements.

The DAA's financial activities are accounted for using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) as promulgated by the Governmental Accounting Standards Board. Thus, revenues are reported in the year earned rather than collected, and expenses are reported in the year incurred rather than paid.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes – The DAA is a state agency and therefore, is exempt from paying taxes on its income.

Cash and Cash Equivalents - The DAA's cash and cash equivalents are separately held in various local banks. The Financial Accounting Standards Board defines cash equivalents as short-term, highly liquid investments that are both: (1) readily convertible to known amounts of cash; and (2) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. The cost of all cash equivalents of the DAA approximates market value.

The California State Treasury makes available the Local Agency Investment Fund (LAIF) through which local governments may pool investments. Each governmental entity may invest up to $40,000,000 in the fund. Investments in the LAIF are highly liquid, as deposits can be converted to cash within 24 hours without loss of interest.

In accordance with the Accounting Procedures Manual, the DAA is authorized to deposit funds in certificates of deposit and interest bearing accounts. However, Government Code Sections 16521 and 16611 require the bank or savings and loan association to deposit, with the State Treasurer, securities valued at 110 percent of the uninsured portion of the funds deposited with the financial institution. Government Code Sections 16520 and 16610 provide that security need not be required for that portion of any deposit insured under any law of the United States, such as FDIC and FSLIC.

Inventories – Inventories, if any, consists primarily of souvenir items sold during fair time, and is stated at cost.

Property and Equipment - Construction-in-progress, land, buildings and improvements, and equipment are acquired with operating funds and funds allocated by the State. Any acquired assets, if greater than $5,000 and a useful life of one or more years, are recorded at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the asset. Buildings and improvements are depreciated over 30 years, and purchases of equipment are depreciated over five years. Costs of repair and maintenance are expensed as incurred by the DAA. Furthermore, donated building improvements, and equipment are recorded at their fair market value at the date of the gift. This recorded basis is depreciated over the useful lives identified above. The costs of projects that have not been placed in service are recorded in Account #190, Construction-in-Progress, and no depreciation is recorded on Construction-in-Progress until the project is completed and the asset is placed in service.

Compensated Absences - Pursuant to Statement No. 16 of the Governmental Accounting Standards Board, State and local governmental entities are required to report the liability for compensated absences. Compensated absences are absences for which permanent employees will be paid, such as vacation, personal leave, and compensatory time off. The compensated absences liability is calculated based on the pay rates in effect at the balance sheet date.

NOTE 2 **NEW ACCOUNTING STANDARDS**

In July 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* ("GASB Statement No. 45"). This statement establishes standards for the measurement, recognition, and display of postretirement benefits other than pensions expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The statement becomes effective for the District for periods beginning after December 15, 2007. Management has not determined the effect of GASB Statement No. 45 on the combined financial statements.

In September 2006, the GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Receivables and Future Revenues,* ("GASB Statement No. 48"). GASB Statement No. 48 establishes criteria that governments will use to ascertain whether the proceeds received should be reported as revenue or as a liability. The criteria should be used to determine the extent to which a transferor government either retains or relinquishes control over the receivables or future revenues through its continuing involvement with those receivables or future revenues. This Statement establishes that a transaction will be reported as a collateralized borrowing unless the criteria indicating that a sale has taken place are met. If it is determined that a transaction involving receivables should be reported as a sale, the difference between the carrying value of the receivables and the proceeds should be recognized in the period of the sale in the change statements. If it is determined that a transaction involving future revenues should not be reported as a sale, the revenue should be deferred and amortized, except when specific criteria are met. This Statement also provides additional guidance for sales of receivables and future revenues within the same financial reporting entity. This statement is effective for periods beginning after December 15, 2006. Adoption of this statement did not have a material impact on the combined financial statements.

In November 2006, the GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations,* ("GASB Statement No. 49"). GASB Statement No. 49 requires governmental entities to report pollution remediation costs in their financial statements. It identifies five obligating events under which the government should estimate the expected obligations for pollution remediation. Under the standard, liabilities and expenses will be estimated using an "expected cash flows" measurement technique, which will be employed for the first time by governments. Further, the standard requires that governments disclose information about their pollution remediation obligations associated with clean-up efforts in the notes to the financial statements. GASB Statement No. 49 will be effective for financial statements with periods beginning December 15, 2007, but liabilities should be measured at the beginning of that period so that beginning net assets can be restated. Management has not determined the effect of GASB Statement No. 49 on the combined financial statements.

In May 2007, the GASB issued Statement No. 50, *Pension Disclosures,* (GASB Statement No. 50"). GASB Statement No. 50 more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits ("OPEB") and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information ("RSI") by pension plans and by employers that provide pension benefits. The reporting changes required by this Statement amend applicable note disclosure and RSI requirements of GASB Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans,* ("GASB Statement No. 25"), and No. 27, *Accounting for Pensions by State and Local Governmental Employers,* ("GASB Statement No. 27") to conform with requirements of Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* ("GASB Statement No. 43") and No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* ("GASB Statement No. 45"). GASB Statement No. 50 will be effective for financial statements with periods beginning after June 15, 2007. Management has not determined the effect of GASB Statement No. 50 on the combined financial statements.

In July 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets,* ("GASB Statement No. 51"). GASB Statement No. 51 requires that intangible assets be classified as capital assets (except for those explicitly excluded from the scope of the new standard, such as capital leases). GASB Statement No. 51 will be effective for financial statements with periods beginning after June 15, 2009. Management has not determined the effect of GASB Statement No. 51 on the combined financial statements.

NOTE 3 **CASH AND CASH EQUIVALENTS**

The following list of cash and cash equivalents were held by the DAA as of December 31:

	2008	2007
Petty Cash	$ 4,880	$ 400
Cash in Bank - Operating	30,993	42,011
Cash in Bank - Premium	0	245
Cash in Bank – Time Deposits	1,133,380	1,145,615
Total Cash and Cash Equivalents	$ 1,169,253	$ 1,188,271

NOTE 4 **ACCOUNTS RECEIVABLE**

The DAA is required to record an allowance for doubtful accounts based on estimates of collectability.

	2008	2007
Accounts Receivable	$ 12,209	$ 24,500
Allowance for Doubtful Accounts	(2,880)	(2,880)
Accounts Receivable - Net	$ 9,329	$ 23,620

NOTE 5 **PROPERTY AND EQUIPMENT**

Buildings and improvements, and equipment at December 31, 2007 and 2006 consist of the following:

	2008	2007
Building & Improvements	$4,282,115	$4,282,115
Less: Accumulated Depreciation	(2,820,248)	(2,718,348)
Building & Improvements - Net	$1,461,867	$1,563,767
Equipment	$ 279,185	$ 265,999
Less: Accumulated Depreciation	(242,005)	(224,208)
Equipment - Net	$ 37,180	$ 41,791

NOTE 6 **LONG-TERM DEBT**

In 2008, the 4th DAA entered into a long-term lease agreement with a local vendor for an office copier. The terms of the agreement are as follows:

Loan Amount	$ 19,730
First Payment Date	March 16, 2007
Payment Amount	$ 391.47
Duration of Loan	60 Months

Interest Rate	9%
Total Outstanding at 12/31/07	$ 13,273
Current Portion at 12/31/08	$ 3,876
Long-Term Portion at 12/31/08	$ 9,397

NOTE 7 RETIREMENT PLAN

Permanent employees of the DAA are members of the Public Employees' Retirement System (PERS), which is a defined benefit contributory retirement plan. The retirement contributions made by the DAA and its employees are actuarially determined. Contributions plus earnings of the Retirement System will provide the necessary funds to pay retirement costs when accrued. The DAA's share of retirement contributions is included in the cost of administration. For further information, please refer to the annual single audit of the State of California.

Retirement benefits fully vest after five years of credited service for Tier I employees. Retirement benefits fully vest after ten years of credited service for Tier II employees. Upon separation from State employment, members' accumulated contributions are refundable with interest credited through the date of separation. The DAA, however, does not accrue the liability associated with vested benefits.

The Alternate Retirement Program (ARP) is a retirement savings program that certain employees hired on or after August 11, 2004 are automatically enrolled in for their first two years of employment with the State of California. ARP is administered by the Savings Plus Program with the Department of Personnel Administration and invests funds in a fixed-income fund. ARP provides two years of retirement savings (five percent of paycheck amount each month) in lieu of two years of service credit. At the end of the two-year period, the deductions are placed in CalPERS and the retirement service credit begins.

Temporary, 119-day, employees of the DAA participate in the Part-Time, Seasonal, Temporary (PST) Retirement Plan. The PST Retirement Plan is a mandatory deferred compensation plan under which 7.5% of the employee's gross salary is deducted before taxes are calculated. These pre-tax dollars are placed in a guaranteed savings program. The employee has the option of leaving these funds on deposit upon separation, or requesting a refund.

NOTE 8 RECLASSIFICATION

Certain prior-year balances have been reclassified to conform to current year presentation. This reclassification did not have an effect on net income.

4th DISTRICT AGRICULTURAL ASSOCIATION
SONOMA-MARIN FAIR
PETALUMA, CALIFORNIA

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1	President, 4th DAA Board of Directors
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1	Chief, CDFA Audit Office

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE

4TH DISTRICT AGRICULTURAL ASSOCIATION
SONOMA-MARIN FAIR
PETALUMA, CALIFORNIA

MANAGEMENT REPORT #09-004

YEAR ENDED DECEMBER 31, 2008

4TH DISTRICT AGRICULTURAL ASSOCIATION
SONOMA-MARIN FAIR
PETALUMA, CALIFORNIA

MANAGEMENT REPORT
YEAR ENDED DECEMBER 31, 2008

AUDIT STAFF

Ron Shackelford, CPA	Audit Chief
Shakil Anwar, CPA	Assistant Audit Chief
Patricia Moore	Auditor

MANAGEMENT REPORT NUMBER
#09-004

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Jeff James, President
Board of Directors
4th DAA, Sonoma-Marin Fair
175 Fairgrounds Drive
Petaluma, California 94952

In planning and performing our audit of the financial statements of the 4th District Agricultural Association (DAA), Sonoma-Marin Fair, Petaluma, California, for the year ended December 31, 2008, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure. We noted no matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

This Management Report includes: (1) matters which came to our attention that could, in our judgment, either individually or in the aggregate, have a significant effect on the entity's financial reporting process (e.g., accounting errors, significant audit adjustments, etc.), and (2) areas of non-compliance by the Sonoma-Marin Fair with respect to State laws and regulations, with the Accounting Procedures Manual, and with established policies and procedures.

In accordance with Government Code Section 13402, Fair managers and Board of Directors are responsible for the establishment and maintenance of a system or systems of internal accounting and administrative control within their agencies. This responsibility includes documenting the system, communicating system requirements to employees, and assuring that the system is functioning as prescribed and is modified, as appropriate, for changes in conditions.

Due to the small size of the 4th DAA's office staff, it is not practical to have the degree of segregation of duties possible in a larger organization. Therefore, the Board of Directors must consider this when determining the extent that the Board becomes involved in operations to adequately safeguard the 4th DAA's assets. The system of internal control should provide the Board of Directors and management reasonable, but not absolute, assurance that: (1) only authorized transactions are executed; (2) transactions are properly recorded in the accounting records; and (3) material errors and irregularities that may occur, will be detected by the 4th DAA in a timely manner during the normal course of operations. In this regard, it is particularly important that the Board review and approve significant transactions and critically review monthly financial information. The 4th DAA's minimum staffing was one factor considered in determining the nature, timing, and extent of the tests to be performed on the 4th DAA's accounting procedures, records, and substantiating documents.

During our audit of the internal control structure of the 4th DAA and compliance with state laws and regulations, we identified no areas with reportable conditions.

However, we identified areas containing non-reportable conditions. These conditions and accompanying recommendations are not considered significant weaknesses. We have included these items solely for the benefit of the 4th DAA's management. We suggest the Fair implement the recommendations as soon as practicable. The Fair, however, is not required to provide written responses to the recommendations for non-reportable conditions.

NON-REPORTABLE CONDITIONS

STANDARD AGREEMENTS

In December 2007 the 4th DAA entered into a 2008 standard agreement with an event coordinator, and remitted $3,750 that represented one of six installment payments to the event coordinator without receiving a written progress report or withholding 10% of the payment. Fairs & Expositions (F&E) Contract Manual, Chapter 5c, Progress Payments, provides guidance that partial payments should be made based upon written progress reports at clearly identifiable stages of progress, that payments should not be made in advance of services rendered, that 10% of the amount due must be retained from each progress payment, and that upon satisfactory completion of services the total amount withheld from each progress payment will be paid to the contractor.

Recommendation

> *The 4th DAA should comply with the F&E Contract Manual and refrain from making progress payments without requiring progress reports from the contractor.*

OPPORTUNITY PURCHASES

The Fair made opportunity purchases during 2008; however, the Fair did not document that purchases made locally were at a price equivalent to or less than that available through the state-purchasing program. We selected nine opportunity purchases that exceeded $2,500 to review the supporting documentation for the three quotes required, and found that only one of the nine had documentation indicating quotes had been received. Opportunity purchases allow DAAs to purchase commodities from any source provided the price meets or beats the state price. In addition, Section 10321 of the Public Contract Code (PCC) states that local businesses often provide opportunity purchases to local fairs that may be purchased locally at a price equivalent to or less than that available through the state purchasing program. Therefore, to claim an opportunity purchase, the Fair must demonstrate and provide copies of bid information or exemption justification when necessary.

Recommendation

> *The Fair should follow the F&E approved opportunity purchasing guidelines in the Purchasing Manual and prepare an opportunity purchase justification noting that the purchase made locally was at a price equivalent to or less than that available through the state purchasing program.*

ACCOUNTING FOR EXTRAORDINARY REPAIRS

In 2008 and 2009, the Fair made emergency storm repairs of over $45,000 to their leased property due to extreme weather that knocked down a utility pole and a light pole that service the fairgrounds. Upon further review we noted that those emergency storm repairs could be considered extraordinary repairs that would require the 4th DAA to capitalize the assets replaced, as they meet the Department of Finance (DOF) capitalization criteria of costing $5,000 or more and having a useful life of more than one year. Extraordinary repairs are defined as occurring infrequently, involving relatively large amounts of money, and are presented by major replacements and betterments. We also noted that these repairs were completed in 2009 according to the California Construction Authority who oversaw the repair/replacement project, which will allow the 4th DAA to identify the costs related to each of the poles replaced and capitalize these extraordinary repairs that meet the DOF capitalization requirements individually.

Recommendation

> *The Fair should research the individual costs related to the extraordinary repairs made and determine whether they amount to a betterment that extends the life of the asset. If the useful life of the asset is extended, the Fair should comply with GAAP, and ensure the costs incurred are capitalized and depreciated.*

TEMPORARY EMPLOYEES

The Fair allowed two temporary employees to work in excess of the 119-day limitation within a calendar year. According to the APM, "by law temporary employees may not work more than 119 days in a calendar year." The APM further cites Article VII Sec. 4(l) of the Constitution of the State of California as its basis for this policy. We noted these employees worked between 128 and 164 days in 2008.

Recommendation

> *The Fair should comply with the APM and State Constitution limitation by ensuring temporary employees do not work in excess of the 119-day limitation.*

DISPOSITION OF AUDIT RESULTS

The findings in this management report are based on fieldwork that my staff performed between October 12, 2009 and October 23, 2009. My staff met with management on October 23, 2009 to discuss the findings and recommendations, as well as other issues.

This report is intended for the information of the Board of Directors, management, and the Division of Fairs and Expositions. However, this report is a matter of public record and its distribution is not limited.

Ron Shackelford, CPA
Chief, Audit Office

October 23, 2009

REPORT DISTRIBUTION

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